



# Financial Management Report as of December 31, 2010

## AT A GLANCE:

2010 Sales tax revenue continues positive trend (page 5)

Building permits remain down and Planning fees still positive (page 4)

City Council adopts 2011-12 Budget (page 2 sidebar)

Recession has ended, but what about recovery? (pages 7-8)

## Inside this issue:

Expenditure Summary	2
General Fund Revenue	3
General Fund Expenditures	4
Sales Tax Revenue Analysis	5
Economic Environment Update	7
Investment Report	8
Reserve Summary	10

## Summary of All Operating Funds: *Revenue*

- **General Fund** actual 2010 revenue ended the year **0.2 percent behind** 2009. Increased revenue from sales and property taxes, franchise fees, and internal charges were generally offset by declines in utility taxes, building revenue, Other Intergovernmental Services as well as significantly lower interest earnings revenue. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- **Other General Government Funds** actual 2010 revenue ended the year **4.7 percent lower** when compared to 2009 primarily due to lower internal rates resulting from expenditure reductions taken in these funds, as well as reallocation of property tax from the Street Operating Fund to the General Fund. Fleet rates were reduced recognizing lower fuel prices and technology rates were reduced recognizing lower personnel costs and use of fund cash for replacement charges as a budget reduction strategy. Lodging tax revenue is up 2.6 percent compared to 2009, indicating stabilization from last year, which was down 16.2 percent compared to the same period in 2008. Motor vehicle fuel tax is essentially flat compared to the same period last year. However, this revenue is down 17.9 percent compared to the same period in 2007 (a peak year). Fuel tax is collected on a flat rate per gallon, so more moderate fuel prices have helped stabilize this revenue's performance.
- **Water Sewer Operating Fund** actual 2010 revenue ended the year **0.5 percent behind** 2009 primarily due to lower water revenue and interest earnings and despite a slight increase in sewer revenue. An Excise Tax refund in 2009 also skews the comparison. The impact of reduced water usage from the cooler and damper spring and summer offset some of the effects of higher water and sewer rates.
- **Surface Water Management Fund** actual 2010 revenue is **3.9 percent lower** compared to 2009 primarily due to less engineering time spent on Surface Water Capital Improvement Projects.
- **Solid Waste Fund** actual 2010 revenue is **3.6 percent lower** compared to 2009 primarily due to a decrease in commercial revenue collection, reflecting lower business activity.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2009	12/31/2010	% Change	2009	2010	% Change	2009	2010
<b>General Gov't Operating:</b>								
General Fund	54,392,698	54,265,938	-0.2%	54,549,760	54,706,544	0.3%	99.7%	99.2%
Other General Gov't Operating Funds	16,979,375	16,181,305	-4.7%	16,563,457	15,798,095	-4.6%	102.5%	102.4%
<b>Total General Gov't Operating</b>	<b>71,372,073</b>	<b>70,447,243</b>	<b>-1.3%</b>	<b>71,113,217</b>	<b>70,504,639</b>	<b>-0.9%</b>	<b>100.4%</b>	<b>99.9%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	18,594,828	18,501,163	-0.5%	19,807,210	20,660,066	4.3%	93.9%	89.6%
Surface Water Management Fund	5,418,423	5,207,761	-3.9%	5,350,962	5,270,500	-1.5%	101.3%	98.8%
Solid Waste Fund	8,623,258	8,312,328	-3.6%	8,612,724	8,627,630	0.2%	100.1%	96.3%
<b>Total Utilities</b>	<b>32,636,509</b>	<b>32,021,252</b>	<b>-1.9%</b>	<b>33,770,896</b>	<b>34,558,196</b>	<b>2.3%</b>	<b>96.6%</b>	<b>92.7%</b>
<b>Total All Operating Funds</b>	<b>104,008,582</b>	<b>102,468,495</b>	<b>-1.5%</b>	<b>104,884,113</b>	<b>105,062,835</b>	<b>0.2%</b>	<b>99.2%</b>	<b>97.5%</b>

Budgeted and actual revenues exclude resources forward and interfund transfers.



### City Council Adopts 2011-12 Budget

#### Service Reductions Effective Jan. 1

On December 7 the Kirkland City Council adopted the 2011-2012 Budget, the 2011-2016 Capital Improvement Program (CIP) and the 2011 Property Tax Levy.

The two-year budget totals approximately \$449 million which is a 12.8% increase from the previous biennial budget due to increases in revenue and expenditures to serve the annexation area. The Budget is comprised of 24 separate funds that are independently balanced (i.e. revenues equal expenditures). The 2011-2012 Budget was balanced primarily through service reductions.

The CIP is a six-year plan that addresses construction, repair, maintenance and acquisition of major capital facilities and equipment to improve transportation, utilities, parks, and buildings in the City.

The Property Tax Levy establishes the total dollars in property tax to be received by the City, which is translated into a rate per \$1,000 of assessed valuation.

To view the legislation adopted by the Council and the video of the meeting, visit the "[Watch City Council Meetings](http://www.ci.kirkland.wa.us)" webpage at [www.ci.kirkland.wa.us](http://www.ci.kirkland.wa.us).

## Summary of All Operating Funds: *Expenditures*

- **General Fund** actual 2010 expenditures are **0.3 percent behind** 2009 primarily due to lower personnel and internal service costs and despite an increase in contracted services. A regional agency (NORCOM) began providing dispatch services as of July 1, 2009, which resulted in a shift from salaries and benefits to contracted services, which is the reason for the increased contracted costs and one of the reasons for reduced personnel costs. Personnel costs are also down due to reduced 2010 salaries taken by most employees (who received furlough days in return) as a budget reduction strategy, as well as reduction in staffing and lower overtime costs. The reduction in overtime costs is largely the result of the elimination of the dispatch staffing. To complicate comparisons even more, the City started to hire staff in 2010 (especially in the Police Department), in anticipation of providing services to the annexation area as of June 1, 2011. The annexation will add over 33,000 people and about 7 miles of land area. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual 2010 expenditures are **1.3 percent behind** 2009 due to generally lower personnel costs and internal rates (primarily due to expenditure reductions), reduced Street and Parks Maintenance operating supplies, lower facility utility costs, and the elimination of the lease payment for the municipal court building, which was purchased in 2009. 2010 expenditures ended the year behind 2009 despite higher vehicle/equipment purchases. Facility utility costs are down, partially due to milder winter weather, but also from staff conservation efforts and the pay-off from investments in updated controls and equipment at various locations. Vehicle replacement costs vary year-to-year depending on the planned replacement cycle.
- **Water/Sewer Operating Fund** actual 2010 expenditures are **0.6 percent behind** 2009 primarily due to a decrease in water connection charges from the Cascade Water Alliance. There is a corresponding decrease in revenue.
- **Surface Water Management Fund 2010** actual expenditures are **2.2 percent ahead** of 2009 due to higher personnel costs related to National Pollutant Discharge Elimination System (NPDES) requirements, which requires public outreach and monitoring of surface water discharge, and normal variability in the timing of payment for various services.
- **Solid Waste Fund 2010** actual expenditures are **0.1 percent ahead** of 2009, an increase in personnel costs and other expenses in 2010 balanced out with a decrease in disposal contract costs for a minimal change in expenditures from 2009 to 2010.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2009	12/31/2010	% Change	2009	2010	% Change	2009	2010
<b>General Gov't Operating:</b>								
General Fund	57,293,487	57,125,733	-0.3%	59,167,520	58,149,798	-1.7%	96.8%	98.2%
Other General Gov't Operating Funds	13,155,462	12,989,483	-1.3%	15,415,335	13,326,213	-13.6%	85.3%	97.5%
<b>Total General Gov't Operating</b>	<b>70,448,949</b>	<b>70,115,216</b>	<b>-0.5%</b>	<b>74,582,855</b>	<b>71,476,011</b>	<b>-4.2%</b>	<b>94.5%</b>	<b>98.1%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	14,613,569	14,528,419	-0.6%	15,555,212	15,903,927	2.2%	93.9%	91.4%
Surface Water Management Fund	3,194,709	3,265,943	2.2%	3,605,721	3,387,458	-6.1%	88.6%	96.4%
Solid Waste Fund	8,215,505	8,225,753	0.1%	8,455,673	8,596,408	1.7%	97.2%	95.7%
<b>Total Utilities</b>	<b>26,023,783</b>	<b>26,020,115</b>	<b>0.0%</b>	<b>27,616,606</b>	<b>27,887,793</b>	<b>1.0%</b>	<b>94.2%</b>	<b>93.3%</b>
<b>Total All Operating Funds</b>	<b>96,472,732</b>	<b>96,135,331</b>	<b>-0.3%</b>	<b>102,199,461</b>	<b>99,363,804</b>	<b>-2.8%</b>	<b>94.4%</b>	<b>96.8%</b>

Budgeted and actual expenditures exclude working capital, operating reserves, capital reserves, and interfund transfers.

## General Fund Revenue

Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

- **Sales tax** revenue allocated to the General Fund for 2010 was adjusted to reflect lower projections as a result of the economic recession. However, 2010 ended the year **4.3 percent ahead** of 2009. A detailed analysis of **sales tax** revenue can be found starting on page 5.
- **Property tax** is **6.5 percent ahead** due to a planned reallocation from the Street Operating Fund in 2010.
- **Utility tax** actual revenue collection is **2.9 percent behind** the same period last year primarily due to significantly lower revenue from natural gas (down 22.4 percent) most likely the result of milder winter weather compared to the previous year along with lower natural gas rates. Telephone utility taxes were also down 4.0 percent compared to 2009. Water and sewer utility taxes are up from the same period last year reflecting higher utility rates, but revenues from these sources ended 2010 lagging budget expectations.
- **Other taxes** actual revenue is **45.9 percent behind** the same period last year due to lower gambling tax revenue and revenue from the Enhanced 911 Access Line charge moving to NORCOM.
- The **business licenses (base fee) and franchise fees** actual revenue ended 2010 **6.9 percent ahead** of 2009 due to higher franchise fee revenue.
- The **revenue generating regulatory license** fee is **4.5 percent ahead** of the same period last year. This fee was restructured and substantially increased in 2009. The increase in 2010 is a combination of fully realizing the restructured fees, as well as changes in timing for renewal of larger employers, but revenue from this source still lagged budget expectations.
- **Development-related fee** revenues, which collectively ended the year **down 7.5 percent** compared to 2009, experienced contrasting trends. Compared to the same period last year, **building permits are 24.3 percent lower** and **engineering services** revenue is **28.1 percent lower**, while **plan check revenue** is **ahead 39.7 percent** and **planning fees** revenue is **ahead 33.2 percent** due to a significant increase in pre-submittal process applications. The increase in the latter two revenues may be a hopeful sign of improvement in future development activity. Note this increase is in comparison to very low collections during 2009.
- Compared to the same period last year: **Grant** revenue is **54.9 percent higher** due to federal stimulus grants for court security, fire station window replacements and home energy reports contracted with Puget Sound Energy; **State shared** revenue is down 3.1 percent due to lower stream-line sales tax mitigation revenue and despite higher liquor control board profits and liquor taxes. **Other intergovernmental services** revenue is **33.3 percent below** last year's actual due to the elimination of the contract providing dispatching services to other cities caused by the formation of NORCOM and despite an increase to revenue received from providing staffing to the regional Criminal Justice Training Center.
- **Internal Charges** are **6.4 percent ahead** compared to the same period last year primarily due to an increase in capital project engineering charges.
- **Miscellaneous** revenue is **79.1 percent behind** last year due to substantially lower interest earnings.
- **Other financing sources** are behind last year due to the funding transferred from other funds in 2009 to balance the 2009-10 budget.

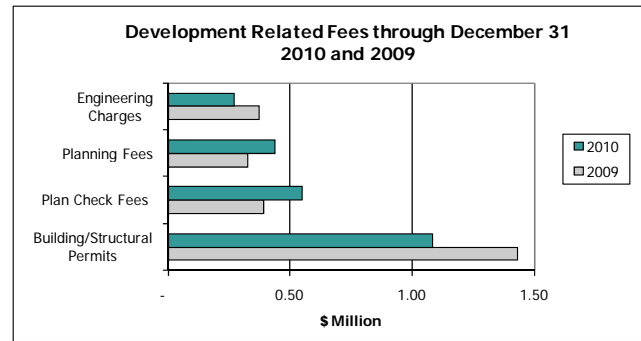
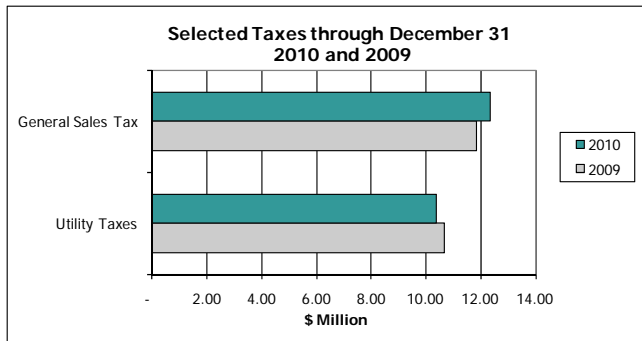
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

About 377 of the City's 474 regular (full-time equivalent) employees are budgeted within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	12/31/2009	12/31/2010	% Change	2009	2010	% Change	2009	2010
<b>Taxes:</b>								
Retail Sales Tax: General	11,824,929	12,336,886	4.3%	11,564,551	11,464,179	-0.9%	102.3%	107.6%
Retail Sales Tax: Criminal Justice	967,304	941,944	-2.6%	1,107,000	1,129,140	2.0%	87.4%	83.4%
Property Tax	9,396,769	10,009,911	6.5%	9,264,941	9,904,815	6.9%	101.4%	101.1%
Utility Taxes	10,672,711	10,363,718	-2.9%	10,604,676	10,965,526	3.4%	100.6%	94.5%
Rev Generating Regulatory License	1,936,606	2,024,640	4.5%	2,599,920	2,567,468	-1.2%	74.5%	78.9%
Other Taxes	608,619	328,968	-45.9%	591,779	466,129	-21.2%	102.8%	70.6%
<b>Total Taxes</b>	<b>35,406,938</b>	<b>36,006,067</b>	<b>1.7%</b>	<b>35,732,867</b>	<b>36,497,257</b>	<b>2.1%</b>	<b>99.1%</b>	<b>98.7%</b>
<b>Licenses &amp; Permits:</b>								
Building, Structural & Equipment Permits	1,429,965	1,081,952	-24.3%	1,645,600	1,436,990	-12.7%	86.9%	75.3%
Business Licenses/Franchise Fees	1,678,466	1,794,322	6.9%	1,654,903	1,720,921	4.0%	101.4%	104.3%
Other Licenses & Permits	184,076	181,586	-1.4%	183,500	175,460	-4.4%	100.3%	103.5%
<b>Total Licenses &amp; Permits</b>	<b>3,292,507</b>	<b>3,057,860</b>	<b>-7.1%</b>	<b>3,484,003</b>	<b>3,333,371</b>	<b>-4.3%</b>	<b>94.5%</b>	<b>91.7%</b>
<b>Intergovernmental:</b>								
Grants	275,116	426,125	54.9%	218,754	503,699	130.3%	125.8%	84.6%
State Shared Revenues & Entitlements	869,176	842,585	-3.1%	908,404	809,010	-10.9%	95.7%	104.2%
Fire District #41	3,904,235	3,580,280	N/A	3,850,077	3,598,238	N/A	101.4%	99.5%
EMS	838,397	831,434	N/A	836,938	866,231	N/A	100.2%	96.0%
Other Intergovernmental Services	819,115	546,222	-33.3%	654,713	547,394	-16.4%	125.1%	99.8%
<b>Total Intergovernmental</b>	<b>6,706,039</b>	<b>6,226,646</b>	<b>-7.1%</b>	<b>6,468,886</b>	<b>6,324,572</b>	<b>-2.2%</b>	<b>103.7%</b>	<b>98.5%</b>
<b>Charges for Services:</b>								
Internal Charges	4,764,301	5,070,809	6.4%	4,905,963	4,707,822	-4.0%	97.1%	107.7%
Engineering Services	375,245	269,722	-28.1%	357,134	225,000	-37.0%	105.1%	119.9%
Plan Check Fee	392,094	547,562	39.7%	520,000	408,252	-21.5%	75.4%	134.1%
Planning Fees	327,772	436,740	33.2%	247,157	245,420	-0.7%	132.6%	178.0%
Other Charges for Services	908,653	849,612	-6.5%	756,426	770,890	1.9%	120.1%	110.2%
<b>Total Charges for Services</b>	<b>6,768,065</b>	<b>7,174,445</b>	<b>6.0%</b>	<b>6,786,680</b>	<b>6,357,384</b>	<b>-6.3%</b>	<b>99.7%</b>	<b>112.9%</b>
<b>Fines &amp; Forfeits</b>	<b>1,504,982</b>	<b>1,651,358</b>	<b>9.7%</b>	<b>1,407,595</b>	<b>1,539,268</b>	<b>9.4%</b>	<b>106.9%</b>	<b>107.3%</b>
<b>Miscellaneous</b>	<b>714,167</b>	<b>149,562</b>	<b>-79.1%</b>	<b>669,729</b>	<b>654,692</b>	<b>-2.2%</b>	<b>106.6%</b>	<b>22.8%</b>
<b>Total Revenues</b>	<b>54,392,698</b>	<b>54,265,938</b>	<b>-0.2%</b>	<b>54,549,760</b>	<b>54,706,544</b>	<b>0.3%</b>	<b>99.7%</b>	<b>99.2%</b>
<b>Other Financing Sources:</b>								
Interfund Transfers	4,477,317	2,341,992	N/A	3,899,053	2,275,530	N/A	114.8%	102.9%
<b>Total Other Financing Sources</b>	<b>4,477,317</b>	<b>2,341,992</b>	<b>N/A</b>	<b>3,899,053</b>	<b>2,275,530</b>	<b>N/A</b>	<b>114.8%</b>	<b>102.9%</b>
<b>Total Resources</b>	<b>58,870,015</b>	<b>56,607,930</b>	<b>-3.8%</b>	<b>58,448,813</b>	<b>56,982,074</b>	<b>-2.5%</b>	<b>100.7%</b>	<b>99.3%</b>

Budgeted and actual revenues exclude resources forward.

## General Fund Revenue *continued*



## General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	12/31/2009	12/31/2010	% Change	2009	2010	% Change	2009	2010
Non-Departmental	1,170,201	1,452,541	24.1%	1,254,877	1,525,820	21.6%	93.3%	95.2%
City Council	343,678	345,605	0.6%	353,175	353,130	0.0%	97.3%	97.9%
City Manager's Office	3,221,365	2,947,807	-8.5%	3,434,631	3,115,861	-9.3%	93.8%	94.6%
Human Resources	1,009,257	1,006,757	-0.2%	1,081,720	1,124,972	4.0%	93.3%	89.5%
City Attorney's Office	1,002,792	983,610	-1.9%	993,790	984,121	-1.0%	100.9%	99.9%
Parks & Community Services	6,959,926	6,605,932	-5.1%	7,621,687	6,722,519	-11.8%	91.3%	98.3%
Public Works (Engineering)	3,485,236	3,123,823	-10.4%	3,629,985	3,340,832	-8.0%	96.0%	93.5%
Finance and Administration	3,509,598	3,529,461	0.6%	3,671,314	3,743,652	2.0%	95.6%	94.3%
Planning & Community Development	2,733,663	2,610,736	-4.5%	2,835,702	2,730,557	-3.7%	96.4%	95.6%
Police	16,117,610	16,988,616	5.4%	16,557,994	17,188,807	3.8%	97.3%	98.8%
Fire & Building	17,740,161	17,530,845	-1.2%	17,732,645	17,319,527	-2.3%	100.0%	101.2%
<b>Total Expenditures</b>	<b>57,293,487</b>	<b>57,125,733</b>	<b>-0.3%</b>	<b>59,167,520</b>	<b>58,149,798</b>	<b>-1.7%</b>	<b>96.8%</b>	<b>98.2%</b>
<b>Other Financing Uses:</b>								
Interfund Transfers	1,705,441	1,024,920	-39.9%	1,705,441	1,024,920	-39.9%	100.0%	100.0%
<b>Total Other Financing Uses</b>	<b>1,705,441</b>	<b>1,024,920</b>	<b>-39.9%</b>	<b>1,705,441</b>	<b>1,024,920</b>	<b>-39.9%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>58,998,928</b>	<b>58,150,653</b>	<b>-1.4%</b>	<b>60,872,961</b>	<b>59,174,718</b>	<b>-2.8%</b>	<b>96.9%</b>	<b>98.3%</b>

Budgeted and actual expenditures exclude working capital, operating reserves, and capital reserves.

Personnel costs in most General Fund departments ended 2010 down compared to 2009 due to the combination of the implementation of furloughs (which reduced salaries and benefit costs) and reduction in staffing as strategies to balance the budget in response to declining revenues (except for staffing added in anticipation of the annexation occurring in 2011—primarily in Police). In addition, specific factors for individual departments are noted below:

### Comparing to the same period last year:

- Actual 2010 expenditures for the **City Council** are **0.6 percent ahead** of last year primarily due to a one-time citizen survey paid this year.
- Actual 2010 expenditures for the **City Manager's Office** are **8.5 percent lower** due to reduced facilities charges resulting from the purchase of the Municipal Court and lower professional services costs, such as the federal lobbyist (which was funded for 2009 only), as well as the timing of outside agency funding payments and other one-time 2009 expenditures.
- Actual 2010 expenditures for the **Parks & Community Services Department** are **5.1 percent lower** primarily due to the timing of human service agency grants and reductions to staffing levels.
- Actual 2010 expenditures for the **Public Works Department** are **10.4 percent lower** almost entirely due to staffing reductions and reallocations.
- Actual 2010 expenditures for the **Finance and Administration Department** ended the year **0.6 percent ahead** of 2009 largely due to 2009 election costs which were paid in 2010.

Compared to 2009, 2010 General Fund actual expenditures are 0.3 percent lower primarily due to lower personnel costs and despite higher costs for jail costs and fire suppression overtime as noted in the explanation of Police and Fire Department expenditures.

(Continued on page 5)



## Financial Management Report as of December 31, 2010

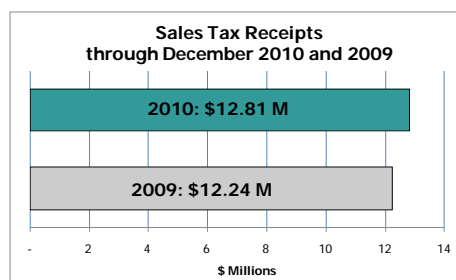
- Actual 2010 expenditures for the **Planning and Community Development Department** are **4.5 percent behind** due to one-time 2009 costs for the Shoreline Master Plan update, as well as staffing reductions.
- Actual 2010 expenditures for the **Police Department** ended the year **5.4 percent ahead** of 2009 due to personnel costs. Several positions were filled throughout 2010 in anticipation of annexation, which commences June 1, 2011. Total annexation personnel expenditures include increases for equipment and supplies for the new staff. Jail costs are 1.7 percent ahead of 2009. These costs have been a concern over the last few years. The City has negotiated new contracts with other agencies for lower rates than those charged by King County, although the total jail population and bed days continues to increase, causing expenses to outpace the budget. The overage was offset by savings in other Police functions.
- Actual 2010 expenditures for the **Fire & Building Department** are **1.2 percent behind 2009** due to lower personnel costs due to reduced building staff resulting from declining development activity and related revenue. Fire suppression overtime expenses in 2010 exceeded the annual budget by more than 42 percent, pushing the fire portion of the department over budget for the biennium. Salary savings from a vacant Fire position and under-expenditures in other City departments helped absorb the overage.



Kirkland Transit Center Design

### Sales Tax Revenue Analysis

**Year-to-date** revenue performance ended **up 4.6 percent** compared to the same period last year, which continued the positive trend experienced for most of 2010. Strong performance in the automotive/gas retail, wholesale services and other retail sector revenue are the primary factors. However, the normalized increase drops to about 3.8 percent ahead of last year when field recoveries (one-time collections resulting from Washington State Department of Revenue audits) are factored out. (see tables on page 6).



#### Business sector comparison to the same period last year:

The **auto/gas retail** sector ended **up 14.4 percent** compared to last year. Positive performance was experienced throughout most of the year. October (December receipts) was the strongest month in 2010 nationally (February receipts were the strongest month for local dealers). National auto sales in 2009 were at their lowest in more than 25 years as a result of the recession. Several analysts predict that 2011 will be even better, increasing to 13 million vehicles from an estimated 12 million vehicles in 2010. Hopefully this will be reflected locally as this sector has been the primary driver in the recovery of 2010 sales tax revenue—providing more than two thirds of the dollar gain.

**Other retail** was **up 4.1 percent** compared to last year primarily due to internet retailers, health care, furniture, food retail, and electronics (even though electronic and furniture have slumped in recent months).

The **retail eating/drinking** sector continued to struggle, **down 5.6 percent** compared to last year.

Even though the fourth quarter of 2010 showed improvement, the **general merchandise/miscellaneous retail** sector ended the year **down 9.5 percent** compared to last year. This sector continues to be the largest drain on revenue performance this year. Hopefully this sector will remain stable in 2011 and contribute to the continuing recovery of sales tax revenue in 2011.

**Wholesale** finished **up 33.2 percent** compared to last year. However, this sector has been significantly impacted by field recoveries—factoring these out reduces the increase to about 23 percent. The change in the streamlined sales tax sourcing rule change (which may also be a factor in the substantial amount in field recoveries) is benefitting this sector and there are some signs of increased development activity.

The **services** sector was **up 12.3 percent** compared to last year, largely due to temporary agency and consulting services, software, and publishing, all impacted by streamlined sales tax rule changes. The accommodations sector continues to improve, up 13.2 percent compared to last year.

The **miscellaneous** sector ended **up 5.3 percent** compared to last year due to manufacturing (most likely due to changes in streamlined sales tax sourcing) and despite declines in finance/insurance and real estate.

The **contracting** sector performance was **up 0.5 percent** compared to last year. However, this sector has been significantly impacted by field recoveries. Factoring these out, the sector would be down 0.8 percent. Although this sector stabilized in 2010, revenue is 42 percent down from 2007 (almost \$1.3 million).

The **communications** sector finished **down 9.5 percent** compared to last year due to changes in development activity as well as declining revenue from telecommunications companies.

#### Streamlined Sales Tax

Washington State implemented new local coding sales tax rules as of July 1, 2008 as a result of joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. About \$115,000 of revenue was received for 2010.

#### Neighboring Cities

Bellevue and Redmond 2010 sales tax revenue through December is down 4.8 percent and 3.5 percent respectively compared to the same period in 2009.

# City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-December		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Services	1,450,142	1,628,449	178,307	12.3%	11.8%	12.7%
Contracting	1,727,379	1,735,361	7,982	0.5%	14.1%	13.6%
Communications	481,053	435,142	(45,911)	-9.5%	3.9%	3.4%
Auto/Gas Retail	2,650,594	3,031,778	381,184	14.4%	21.6%	23.7%
Gen Merch/Misc Retail	1,929,745	1,746,268	(183,477)	-9.5%	15.8%	13.6%
Retail Eating/Drinking	1,126,930	1,063,668	(63,262)	-5.6%	9.2%	8.3%
Other Retail	1,546,911	1,610,387	63,476	4.1%	12.6%	12.6%
Wholesale	546,513	728,195	181,682	33.2%	4.5%	5.7%
Miscellaneous	785,660	827,608	41,948	5.3%	6.4%	6.5%
<b>Total</b>	<b>12,244,927</b>	<b>12,806,856</b>	<b>561,929</b>	<b>4.6%</b>	<b>100.0%</b>	<b>100.0%</b>

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2009 and 2010 year-to-date sales tax receipts in the table to the left.

## City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2009	2010		
January	994,146	945,992	(48,154)	-4.8%
February	1,224,935	1,364,023	139,088	11.4%
March	954,492	937,460	(17,032)	-1.8%
April	867,726	953,914	86,188	9.9%
May	1,007,790	1,094,845	87,055	8.6%
June	900,630	1,009,111	108,481	12.0%
July	945,877	1,035,279	89,402	9.5%
August	1,091,599	1,136,223	44,624	4.1%
September	1,107,188	1,142,588	35,400	3.2%
October	1,109,409	1,053,781	(55,628)	-5.0%
November	1,076,996	1,089,394	12,398	1.2%
December	964,139	1,044,246	80,107	8.3%
<b>Total</b>	<b>12,244,927</b>	<b>12,806,856</b>	<b>561,929</b>	<b>4.6%</b>

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in December is for sales activity in October. Monthly sales tax receipts through December 2009 and 2010 are compared in the table above.

- Monthly revenue performance in 2010 has improved from the mostly double digit declines experienced throughout 2009.
- The dampening of automobile sales comparisons to last year caused by the "cash for clunkers" sales spike is indicated by the smaller gains in August and September.
- October 2010 was down 5% from October 2009, which was the first negatively impacted month in 2010 since March. The downturn was largely due to significant declines in auto/gas retail sales. This comparison was largely impacted by the spike in sales in 2009 due to the "cash for clunkers" program.
- December revenue increased significantly after experiencing soft performance in the previous two months. The increase is largely caused by higher auto/gas retail sales, a large receipt from a software company, and improvement in the general merchandise/miscellaneous retail sector. Negative performance continued in contracting, other retail, retail eating/drinking and communications sectors.

Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.

## Comparing to the same period last year:

**Totem Lake**, which accounts for over 30 percent of the total sales tax receipts, was **up 4.4 percent** primarily due to significant improvement in automotive/gas retail sales and retail furniture/electronics. About 66 percent of this business district's revenue comes from the auto/gas retail and general merchandise/miscellaneous retail sectors.

**NE 85<sup>th</sup> Street**, which accounts for almost 16 percent of the total sales tax receipts, was **up 0.3 percent** primarily due to an increase in the automotive/gas retail and despite declines in the general merchandise/miscellaneous retail sectors. These two sectors contribute over 85 percent of this business district's revenue.

**Downtown**, which accounts for 7 percent of the total sales tax receipts, was **down 3.7 percent** due to the loss of several retailers and declines in the retail eating/drinking sector. The retail eating/drinking, accommodations, and other retail

sectors provide over 68 percent of this business district's revenue.

**Carillon Point & Yarrow Bay**, which account for 2.8 percent of the total sales tax receipts, was **up 11.1 percent** compared to last year primarily due to a strong performance in the retail eating/drinking sector and a positive performance in other retail and the accommodations sectors. About 65 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

**Houghton & Bridle Trails**, which accounts for 2.5 percent of the total sales tax receipts, was **up 3.2 percent** collectively almost entirely due to miscellaneous retail and other retail. A major supermarket was re-opened in May, which positively impacted this sector during the third and fourth quarters. These sectors provide over 71 percent of these business districts' revenue.

**Juanita**, which accounts for about 2 percent of the total sales tax receipts, was **down 2.9 percent** primarily due to a poor performance in the retail automotive/gas sector and the retail eating/drinking sectors. Retail eating/drinking, miscellaneous retail and personal services provide almost 71 percent of this business district's revenue.

When reviewing sales tax receipts by business district, it's important to point out that about 41 percent of the revenue received in 2010 is in the "unassigned or no district" category largely due to contracting revenue and increasing revenue from Internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

Business District	Jan - Dec Receipts		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Totem Lake	3,796,711	3,962,956	166,245	4.4%	31.0%	30.9%
NE 85th St	2,034,787	2,040,857	6,070	0.3%	16.6%	15.9%
Downtown	929,004	894,343	(34,661)	-3.7%	7.6%	7.0%
Carillon Pt/Yarrow Bay	321,163	356,940	35,777	11.1%	2.6%	2.8%
Houghton & Bridle Trails	304,671	314,411	9,740	3.2%	2.5%	2.5%
Juanita	273,208	265,373	(7,835)	-2.9%	2.2%	2.1%
Unassigned or No District:						
Contracting	1,727,807	1,735,759	7,952	0.5%	14.1%	13.6%
Other	2,857,575	3,236,217	378,642	13.3%	25.6%	27.3%
<b>Total</b>	<b>12,244,927</b>	<b>12,806,856</b>	<b>561,930</b>	<b>4.6%</b>	<b>100.0%</b>	<b>100.0%</b>

**Sales Tax Revenue Outlook** Sales tax receipts have been positive for most of 2010 compared to 2009, as illustrated in the monthly chart on the previous page. One-time field recoveries have supplemented the increase by almost a full percentage point. Upside trends pose potential risks—the automotive/gas retail sector has contributed the largest amount of gain, but this sector is very sensitive to economic conditions. Contracting has stabilized from the severe downturn it experienced last year, but it is also sensitive to the economy and revenue trends are much lower than just a few years ago. Performance in key retail sectors—general merchandise/miscellaneous retail—has been stable the last three months of 2010, while retail eating/drinking has not shown signs of recovery. The impact from streamlined sales tax sourcing rule changes has negatively impacted some sectors, but is offset by gains in others. The shaky economic recovery poses significant risk to the City's ability to maintain services, since sales tax remains the largest general fund revenue source this year. Changes in revenue structure over the last few years has provided some balance to offset the volatility inherent in sales tax.

#### OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside vacancy rate is 18 percent for the fourth quarter 2010 which is slightly less than the same quarter last year (18.3 percent). Kirkland's 2010 vacancy rate is 24.2 percent.

The Puget Sound regional market recovery appears to continue with 304,220 square feet of positive absorption during the fourth quarter, with less than 1 percent occurring on the Eastside. Positive absorption occurs when the total amount of available office space decreases during a set period.

Looking ahead to 2011 there is expected growth in technology companies, which is the Eastside's major strength in the market.

Brokers agree that as the economy improves vacancy rates will continue to drop and rental rates will increase.

#### LODGING TAX REVENUE:

Lodging tax 2010 revenue ended the year ahead 2.6 percent compared to the same period last year.

**Economic Environment Update** While the state economy continues to expand, the fourth quarter continues the slow recovery after a strong growth last spring. Employment growth has continued at a slow pace with about 1,000 private sector jobs added per month, too slow to reduce the state's unemployment rate. At the end of 2010, the state had 177,000 less non-farm jobs than it did at the peak of 2008. The state's chief economist concurs with the national assertion that the recession has ended in Washington State, but recovery remains fragile and volatile. The state's latest economic and revenue update points out that while the recession may have ended, it continues to weigh on the economy. The housing market is expected to remain depressed for quite a while due to foreclosures and hesitant buyers. Banking is also expected to struggle with more consolidations and failures. On the positive side, consumers have begun spending more, Boeing is predicting a 20% increase in production and maintains a backlog of orders, software sectors are projected to begin growing again in 2011, and the demand for overseas exports appears to be increasing.

The U.S. **consumer confidence index** dropped to **53.3** in December compared to 54.3 in November, primarily due to continuing high unemployment and other negative economic news. The monthly index changes have been particularly volatile in 2010, reflecting the uncertain economic conditions. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

King County's **unemployment rate** was **8.4 percent** in December 2010, which was the same rate experienced in December 2009. While remaining high, King County is lower than both Washington State and national rates, which are 9.2 and 9.1 percent respectively.

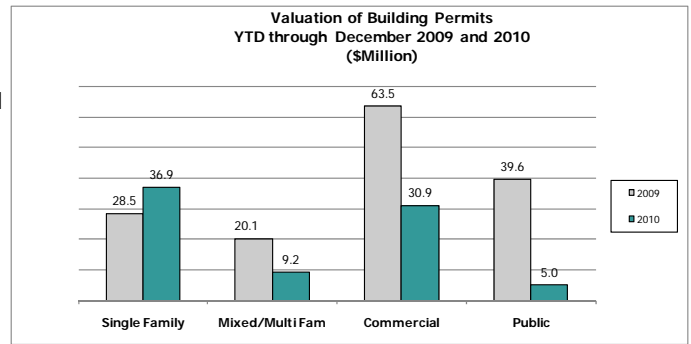
The **Western Washington chapter of Purchasing Managers survey index** short-term outlook rose to 64.2 in December from 62.6 in November. The long-term outlook index also rose to 71.1 from 59.5. An index reading greater than 50 indicates a growing economy, while scores below suggest a shrinking economy.

(Continued on page 8)

Local **development activity** through December comparing 2010 to 2009, as measured by the valuation of City of Kirkland building permits, is illustrated in the chart to the right. Activity remains improved in the single family sector. However, activity in the mixed use/multifamily, commercial and public sectors is low and the 2010 building permit valuation is 46 percent below the same period in 2009.

Closed sales of **new and existing single-family homes** on the Eastside are up 1.3 percent in December 2010 compared to December 2009, and the median price increased 1.9 percent (\$530,000 compared to \$520,000). Closed sales for condominiums were also up 9.2 percent, but the median price dropped 11.6 percent (to \$248,500 from \$281,200). December year-over-year sales was the largest since the federal tax credits expired, with just four fewer houses selling in December 2010 than in December 2009. In December, all areas of King County, except the Eastside, saw the median price of single family homes decline.

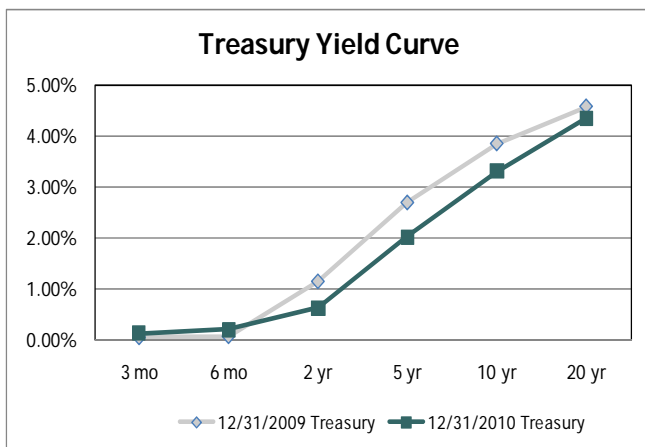
**Seattle metro consumer price index (CPI)** annual average was up 0.80 percent compared to 2009. The June index is the contractual basis for budgeting COLA increases, the June index was down 0.10 percent compared to June 2009, which means that employees will receive no cost of living adjustment in 2011, which is the second consecutive year with no adjustment. Looking ahead to 2011, a Reuters poll of economists suggests an eventual rise in inflation as economic growth strengthens. Inflation is the rise of the general price resulting in a reduced value of the dollar and purchasing power.



## Investment Report

### MARKET OVERVIEW

Throughout 2010, investment earning opportunities continued at all time lows. The Fed Funds rate remained in the range of 0.00 percent to 0.25 percent for all of 2010. As can be seen in the accompanying graph, the treasury yield curve remained low on the short end of the curve and dropped about one half percent in the middle of the curve.



### CITY PORTFOLIO

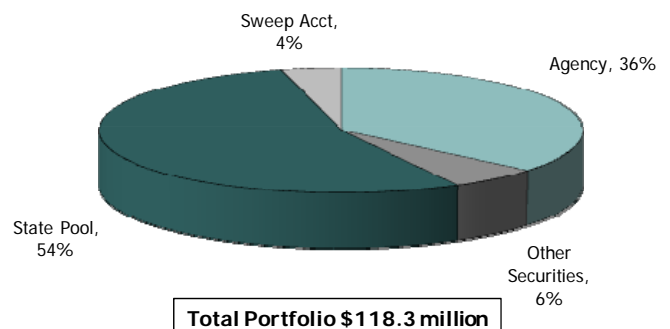
It is the policy of the City of Kirkland to invest public funds in a manner which provides the highest investment return with maximum security, while meeting the City's daily cash flow requirements and conforming to all Washington state statutes governing the investment of public funds.

The primary objectives for the City of Kirkland's investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maxi-

mum allowable exposure limits, so that reliance on any one issuer will not place an undue financial burden on the City.

The City's portfolio increased to \$118.3 million at the end of 2010 with the issuance of \$35 million in Build America Bonds for the Public Safety Building. Apart from the bond issuance, the portfolio would have decreased about \$10 million primarily due to the purchase of the property for the Public Safety Building.

### Investments by Category



### Diversification

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, State and Local Government bonds, the State Investment Pool and an overnight bank sweep account. Kirkland's Investment Policy allows up to 100% of the portfolio to be invested in US Treasuries or US Government Sponsored Enterprises (GSEs) securities with a limit of 30% of the portfolio invested in any one agency.



## 2010 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The professional forecasters of the Federal Reserve Bank of Philadelphia expect economic growth of 3.2 percent in 2011 following an approximate 2.9 percent increase in 2010. CPI inflation for 2011 is expected to be 2.5 percent. The unemployment rate is expected to average 9.1 percent for 2011. The Fed Funds rate, currently at 0.00 to 0.25 percent, is expected to stay at this level throughout 2011 and possibly through the first quarter of 2012.

Investment opportunities which provide greater yield are limited during this period of very low interest rates. The goal for 2011 will be to watch the movement of the interest rates and determine the best time to begin increasing the duration of the portfolio by purchasing longer term, higher yielding securities. Total investment income for 2011 is estimated to be \$785,000, less than half of the interest income for 2010 of \$1,621,752.

## Investment Report *continued*

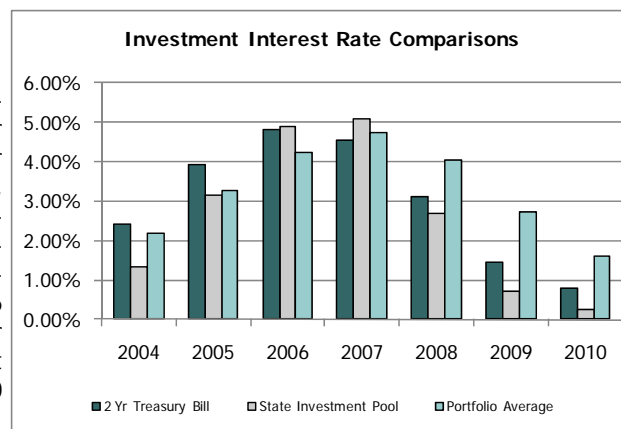
### Liquidity

During 2010, the average maturity of the City's investment portfolio increased from 0.72 years to 1.07 years. This was a result of the purchase of securities with longer maturities in order to achieve greater return. The effective duration, if the bonds with call features are called, is about 0.34 years. A shorter duration in times of low interest is preferable so that the portfolio is positioned to invest as rates increase. The 2 year treasury rate is used to establish the target duration of the City's portfolio as seen in the table to the right.

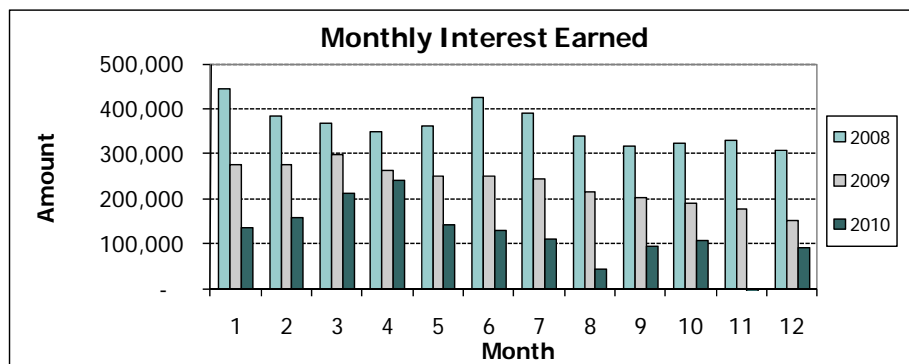
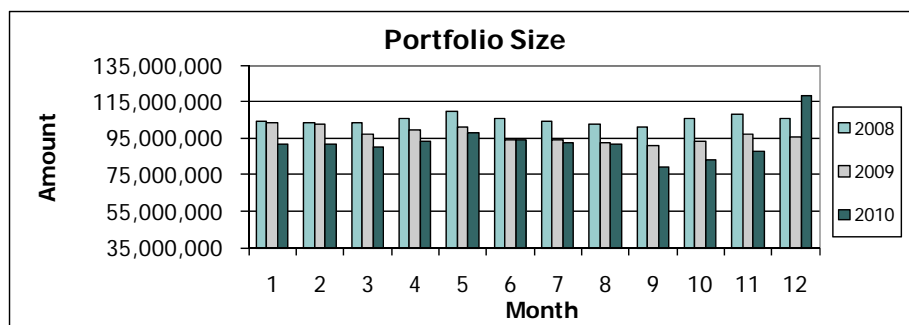
Benchmark Comparison	December 31, 2009	December 31, 2010
City Yield to Maturity (YTM)	1.66%	1.00%
City Average YTM	2.74%	1.61%
City Year to Date Cash Yield	3.04%	1.75%
90 Day Treasury Bill	0.70%	0.26%
2 yr Rolling Avg 2 yr T Note	1.44%	0.80%

### Yield

The City Portfolio yield to maturity decreased from 1.66 percent on December 31, 2009 to 1.00 percent on December 31, 2010. Through December 31, 2010, the City's annual average yield to maturity was 1.61 percent, which significantly outperformed the State Investment Pool annual average yield at 0.26 percent and as well as the 2-Year Treasury Note 2-year rolling average at December 31, 2010 which was 0.80 percent.



The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the graph above.



## Reserve Summary

### General Operating Reserve

For the City's "Rainy Day" fund, the target is established by fiscal policy at five percent of the operating budget (excluding utility and internal service funds). Each year, the target amount will change proportional to the change in the operating budget. To maintain full funding, the increment between five percent of the previous year's budget and the current budget would be added or subtracted utilizing interest income and year-end transfers from the General Fund. It is a reserve to be used for unforeseen revenue losses and other temporary events. If the reserve is utilized by the City Council, the authorization should be accompanied by a plan for replenishing the reserve within a two to three year period.

### Revenue Stabilization Reserve

The Revenue Stabilization Reserve was approved by Council in July 2003 and was created by segregating a portion of the General Operating Reserve. The purpose of this reserve is to provide an easy mechanism to tap reserves to address temporary revenue shortfalls resulting from temporary circumstances (e.g. economic cycles, weather-related fluctuations in revenue). Council set the target at ten percent of selected General Fund revenue sources which are subject to volatility (e.g. sales tax, development fees and utility taxes). The Revenue Stabilization Reserve may be used in its entirety; however, replenishing the reserve will constitute the first priority for use of year-end transfers from the General Fund at the end of the biennium.

### Contingency Fund

The Contingency Fund was established pursuant to RCW 35A.33.145 to "provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual budget." State law sets the maximum balance in the fund at \$.375 per \$1,000 of assessed valuation. This reserve would be used to address unforeseen expenditures (as opposed to revenue shortfalls addressed by the Revenue Stabilization Reserve). The fund can be replenished through interest earnings up to the maximum balance or through the year-end transfer if needed.

*Reserves are an important indicator of the City's fiscal health. They effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are otherwise dedicated to a specific purpose (special purpose reserves). The City's reserves are listed with their revised budgeted balances at the end of the biennium in the table below:*

### General Government & Utility Reserves Summary

Reserves	2009-10 Est End Balance	2009-10 Auth. Uses	2009-10 Auth. Additions	Revised 2009-10 End Balance
<b>GENERAL PURPOSE RESERVES</b>				
Contingency	2,324,515	607,837	320,600	2,037,278
General Capital Contingency	2,444,561	338,317		2,106,244
Park & Municipal Reserve:				
General Oper. Reserve (Rainy Day)	2,712,836			2,712,836
Revenue Stabilization Reserve	1,082,380	1,082,380		0
Building & Property Reserve	2,059,669	125,000		1,934,669
Council Special Projects Reserve	271,960	150,426	80,000	201,534
<b>Total General Purpose Reserves</b>	<b>10,895,921</b>	<b>2,303,960</b>	<b>400,600</b>	<b>8,992,561</b>
<b>SPECIAL PURPOSE RESERVES</b>				
Excise Tax Capital Improvement:				
REET 1	8,370,417	2,349,314	266,078	6,287,181
REET 2	8,134,095		361,336	8,495,431
Equipment Rental:				
Vehicle Reserve	6,421,787			6,421,787
Radio Reserve	36,000	36,000		0
Information Technology:				
PC Replacement Reserve	494,373			494,373
Major Systems Replacement Reserve	247,900	200,000	197,600	245,500
Facilities Maintenance:				
Operating Reserve	550,000			550,000
Facilities Sinking Fund	1,051,963			1,051,963
Impact Fees				
Roads	3,429,578			3,429,578
Parks	237,809			237,809
Park Bond Reserve	558,981			558,981
Cemetery Improvement	523,405			523,405
Off-Street Parking	204,410			204,410
Tour Dock	70,175			70,175
Street Improvement	994,576	32,567		962,009
Firefighter's Pension	1,590,102			1,590,102
Park & Municipal Reserve:				
Litigation Reserve	51,329			51,329
Labor Relations Reserve	67,183			67,183
Police Equipment Reserve	48,093			48,093
LEOFF 1 Police Reserve	612,029			612,029
Facilities Expansion Reserve	800,000			800,000
Development Services Reserve	457,331			457,331
Tree Ordinance	28,980			28,980
Donation Accounts	161,257			161,257
Revolving Accounts	86,175			86,175
Water/Sewer Operating Reserve	1,799,424			1,799,424
Water/Sewer Debt Service Reserve	826,759			826,759
Water/Sewer Capital Contingency	3,018,240	359,200	68,998	2,728,038
Water/Sewer Construction Reserve	9,444,066	89,787		9,354,279
Surface Water Operating Reserve	394,485			394,485
Surface Water Capital Contingency	617,690			617,690
Surface Water-Transp. Related Rsv	1,302,179	38,126		1,264,053
Surface Water Construction Reserve	3,186,434			3,186,434
<b>Total Special Purpose Reserves</b>	<b>55,817,225</b>	<b>3,104,994</b>	<b>894,012</b>	<b>53,606,243</b>
<b>Grand Total</b>	<b>66,713,146</b>	<b>5,408,954</b>	<b>1,294,612</b>	<b>62,598,804</b>

Reserve Summary *continued*

## USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION	RESERVE	AMOUNT	DESCRIPTION
<b>2009-10 Council Authorized Uses</b>			<b>2009-10 Council Authorized Additions</b>		
Contingency	\$54,750	Verizon franchise negotiations	Contingency	\$50,000	Reimbursement from Verizon for franchise negotiations
	\$188,262	Hydrant Costs		\$270,600	Replenish reserve from 2009 General Fund expenditure savings
	\$272,000	2009 Firefighter Overtime			Replenish reserve from 2009 General Fund expenditure savings
	\$3,545	Return 2008 Interest Backfill to General Fund	Council Special Projects Reserve	\$80,000	Replenish reserve from 2009 General Fund expenditure savings
	\$89,280	Reserve Fire Fighter Compensation	Excise Tax Capital REET 1	\$266,078	Closed Capital Projects
General Capital Contingency	\$64,000	Downtown Transit Center	Excise Tax Capital REET 2	\$361,336	Closed Capital Projects
	\$43,800	NE 73rd Street Sidewalk additional funding	Major Systems Replacement Reserve	\$197,600	Closed Capital Projects
	\$98,544	Return 2008 Interest Backfill to General Fund	Water Sewer Capital Contingency	\$68,998	Closed Capital Projects
	\$60,170	Pandemic Flu Supplies			
	\$71,803	NE 73rd Street Sidewalk			
Revenue Stabilization Reserve	\$1,082,380	Backfill General Fund revenue deficit			
Building & Property Reserve	\$125,000	Return 2008 Interest Backfill to General Fund			
Council Special Projects Reserve	\$2,000	Council Retreat facilitator			
	\$26,000	Funding for federal lobbyist services for 2009			
	\$25,000	Funding for Neighborhood Connections in 2010			
	\$20,000	Hopelink relocation			
	\$13,770	Flexpass program			
	\$12,506	Bank of America project review process			
	\$5,000	Council special investigation			
	\$12,400	Medical transport fee consultant contract			
	\$20,000	ParkPlace Development Agreement Legal/Financial			
	\$13,750	Annexation Shoreline Master Plan Services			
Excise Tax Capital REET 1	\$2,349,314	Municipal Court Building purchase			
Equipment Rental Radio Reserve	\$36,000	Police radios purchase			
IT Major Systems Repl. Reserve	\$200,000	Permit Plan System replacement			
Street Improvement Fund	\$23,000	99th Place NE/100th Ave NE Sidewalk			
	\$9,567	2009 Annual Striping Program			
Water/Sewer Capital Contingency	\$54,000	Additional funding of \$54,000 for telemetry system upgrades at Supply Station #2 to coincide with a City-wide upgrade of telemetry panels at other water facility sites.			
	\$128,000	Funding for the completion of the 2009 Water System Improvement Project.			
	\$17,200	NE 73rd Street Sidewalk (watermain replacement) additional funding			
	\$40,000	3rd Street Watermain Replacement			
	\$120,000	116th Ave NE (Highlands) Sidewalk Project Water System Upgrades			
Water/Sewer Construction Reserve	\$21,787	Bridle View Annexation Water System Purchase from Redmond			
	\$68,000	NE 116th Str Interchange Water Line Upgrade w/WSDOT			
Surface Water-Transp. Related Rsv	\$23,000	Downtown Transit Center (surface water component)			
	\$15,126	NE 124th Street/124th Ave NE Intersection Improvements (surface water component)			

## General Government &amp; Utility Reserves Targets Summary

Reserves	Revised 2009-10 End Balance	2009-10 Target	Over (Under) Target
<b>GENERAL PURPOSE RESERVES</b>			
Contingency	2,037,278	4,915,571	(2,878,293)
General Capital Contingency	2,106,244	9,032,430	(6,926,186)
Park & Municipal Reserve:			
General Oper. Reserve (Rainy Day)	2,712,836	3,567,649	(854,813)
Revenue Stabilization Reserve	0	2,188,803	(2,188,803)
Council Special Projects Reserve	201,534	250,000	(48,466)
<b>General Purpose Reserves with Targets</b>	<b>7,057,892</b>	<b>19,954,453</b>	<b>(12,896,561)</b>
<b>SPECIAL PURPOSE RESERVES</b>			
Excise Tax Capital Improvement:			
REET 1	6,287,181	1,653,500	4,633,681
REET 2	8,495,431	8,477,130	18,301
Firefighter's Pension	1,590,102	1,103,000	487,102
Park & Municipal Reserve:			
Litigation Reserve	51,329	50,000	1,329
Water/Sewer Operating Reserve	1,799,424	1,799,424	0
Water/Sewer Debt Service Reserve	826,759	826,759	0
Water/Sewer Capital Contingency	2,728,038	3,018,240	(290,202)
Surface Water Operating Reserve	394,485	394,485	0
Surface Water Capital Contingency	617,690	617,690	0
<b>Special Purpose Reserves with Targets</b>	<b>22,790,439</b>	<b>17,940,228</b>	<b>4,850,211</b>
<b>Reserves without Targets</b>	<b>32,750,473</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Reserves</b>	<b>62,598,804</b>	<b>n/a</b>	<b>n/a</b>

*The summary above details all Council authorized uses and additions to each reserve for the biennium through December 2010.*

*Use of the Revenue Stabilization Reserve was part of the budget-balancing strategy for the 2009-10 biennial budget. Replenishment of this reserve will be the first priority for use of available year-end funds.*

*The table to the left compares the revised ending balance to the targets established in the budget process for those reserves with targets.*



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The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual comparison** for year-to-date revenues and expenditures for all operating funds. The report also compares this year's actual revenue and expenditure performance to the prior year.
- The **Sales Tax Revenue Analysis** report takes a closer look at the City's largest and most economically sensitive revenue source.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.

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- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department